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What the Congressional Budget Office has to say on Military Compensation

Military Pay, Benefits Debt Deal Targets
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The Congressional Budget Office has released a report on military compensation that puts a red laser dot on near-term pay raises, beneficiary health care fees and retirement of future forces as potential cost-saving targets Congress might want to consider in any debt-reduction deal.

Thanks in part to what CBO says were pay raises that exceeded private-sector wage growth through much of the last decade, the report estimates that military cash compensation increased by 52 percent from 2002 to 2010 while private sector wages rose by only 24 percent.

In 2012, a married E-4 (Army corporal) with four to six years of service will receive "regular military compensation," or RMC, valued at \$50,860. RMC is the "salary" yardstick for the military. It combines basic pay (in this case, \$27,200 for that E-4) with subsistence allowance (\$4,180), average Basic Allowance for Housing for the pay grade across U.S. housing areas (\$14,820) and an estimated value for the tax advantages on tax-free allowances (\$4,660). An officer example is given too. RMC for a married O-3 (Army captain) with six years of service is \$92,220 this year.

In addition, CBO notes that some members receive enlistment or re-enlistment bonuses, special or incentive pays for unique skills and pay for serving in dangerous or difficult assignments, including combat areas, which can mean tax breaks on part or all of their basic pay too.

CBO discusses RMC after advising that \$150 billion, or more than one quarter of the Defense Department's "base" budget (which excludes the

cost of current operations in Iraq and Afghanistan) will be spent this year on military pay and benefits for current forces and retirees. It goes on to propose ways to curtail compensation costs.

Rep. Paul Ryan of Wisconsin, in his role as chairman of the House Budget Committee, requested the report. It describes recent gains to service compensation, projected growth, the history of cost sharing under TRICARE and even how court rulings knocked down claims by older retirees that recruiter promises had bound the military to provide free health care for life.

One approach to cut costs is to "restrict basic pay raises" as Defense officials proposed last April, CBO says. Congress so far has rejected the idea. But any grand bargain to address the debt crisis in coming months could include many unpleasant surprises for beneficiaries of federal programs.

The Department of Defense proposed a raise of 1.7 percent this January and in 2014. These were touted as big enough to keep pace with private-sector wage growth, but CBO projects they will fall short. And even deeper pay caps are proposed for the next three years. The administration's 2015 raise would be only 0.5 percent, followed by 1 percent in 2016 and 1.5 percent in 2017.

Pay caps could hurt recruiting and retention, CBO concedes, but that can be mitigated with more and bigger enlistment and re-enlistment bonuses. Unlike pay hikes, CBO says, bonuses "do not compound from year to year and they have no effect on the value of future retirement annuities."

If negotiators were to agree to pay cap plan, military pay would lose 9 percent to private-sector wage growth over the five-year period, the report says. But that is only an option, not a recommendation, CBO adds.

Another way to slow compensation growth, it says, is to raise TRICARE enrollment fees, deductibles or co-payments, actions also proposed by the administration last April. For working-age retirees, those under 65, fee hikes should be phased over five years and use a "tiered approach" so that senior-grade retirees would pay higher fees than lower-ranking retirees.

DoD also seeks a new annual enrollment fee for the TRICARE for Life insurance supplement to Medicare, used by retirees 65 and older. That also would be tiered so retirees drawing smaller retirements pay less. Congress so far has rejected that proposal as well.

CBO says higher enrollment fees not only would raise collections but also discourage retirees and families from relying on military health care versus civilian employer health insurance. Higher deductibles and co-pays would restrain use of medical services too and also lower TRICARE costs.

The report estimates that out-of-pocket costs to military beneficiaries today are just one-fifth of what civilian workers pay for health care. Unless fees are raised, CBO projects that military health care costs will jump from \$51 billion in 2013 to \$77 billion (in 2013 dollars) by 2017.

CBO raises another option it floated last year: prohibiting working-age military retirees and families from TRICARE Prime, the military's managed care option. Instead, they would use only TRICARE Standard, the fee-for-service insurance option, or TRICARE Extra, the preferred-provider option. Or presumably they would use health insurance offered by current employers.

Sen. John McCain of Arizona, ranking Republican on the Senate Armed Services Committee, embraced that idea last year in a letter to the Joint Select Committee on Debt Reduction, a concession to avoid across-the-board cuts to defense programs called for under the "sequestration" trigger of the 2011 Budget Control Act. Sequestration must be carried out starting by Jan. 2, 2013, if Congress doesn't agree to a \$1.2 trillion debt-cutting deal.

CBO says restricting Prime access to retirees under 65 and their family members would save as much as \$10 billion a year. Congress so far has rejected it too, along with calls to raise TRICARE fees or to change military retirement for future recruits. The CBO report reviews options for changing retirement. It notes that a less generous plan, if only for new entrants, still would save on the DoD "accrual" costs, the funding required every year to cover obligations to future generations of retirees.

Like most Americans, military people are confused and frustrated by the failure of Congress to reach a debt-reduction deal. The CBO report reminds the military community that how the deal gets made could be as consequential to their families as that fearsome drive off the "fiscal cliff."

SOURCE: Lawton (OK) Constitution website at <http://www.swoknews.com/> by way of *US Army Stand-To Newsletter*, 19 November 2012, at <http://www.army.mil/standto/>